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RUEAIIA/CIA WASHINGTON DC IMMEDIATE
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC IMMEDIATE
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UNCLAS SECTION 01 OF 02 ADDIS ABABA 000395

SENSITIVE
SIPDIS

H PASS TO CONGRESSMEN GREGORY MEEKS AND MELVIN WATT

E.O. 12958: N/A

TAGS: [PREL](#) [PGOVECON](#) [EAGR](#) [AF](#) [ET](#)

SUBJECT: ETHIOPIA: CODEL MEEKS HEARS GOE'S
WHIP-INFLATION-NOW PHILOSOPHY

11. (SBU) SUMMARY. Visiting Congressmen Meeks and Watt asked Finance Minister Sufian and National Bank Governor Teklewold to comment on the impact of the world financial crisis on Ethiopia and on the state of relations between the ministry and the bank. Sufian said the crisis had largely passed institutionally isolated Ethiopia by, although exports, remittances, and development assistance all decreased as foreign funds dried up. The minister had high praise for International Monetary Fund (IMF) efforts to mitigate those secondary impacts and almost equal criticism of the World Bank. Sufian and Teklewold agreed that both the ministry and the bank focus on price stability with an arsenal of weapons and consider deficit budget financing only when inflation is firmly in hand, a shared preoccupation that he said tends to maximize operational coordination. END SUMMARY.

12. (SBU) Congressmen Gregory Meeks and Melvin Watt joined Charge John Yates in a February 17 meeting with Ethiopian Minister of Finance and Economic Development Sufian Ahmed and National Bank Governor Teklewold Atnafu in the minister's Addis Ababa office. P/E Couns and Poloff also participated along with Codel staffers.

Silver lining of Stifled Development: Worst Effects of
Financial Crisis Spare Ethiopia

13. (SBU) Congressman Watt told the Ethiopians that the Codel multi-stop mission to Africa was to get a sense of the impact of the financial crisis and to foster multilateral relationships in Africa and between African states and the U.S. Addressing the first point, Minister Sufian said Ethiopian banks and interests were not highly exposed because they were not linked to any significant degree to the world economy and that the crisis had frankly "passed us by." He quickly qualified that conclusion, however, by adding that he was talking about direct impacts and that Ethiopia had felt strong indirect effects of the foreign difficulties in three respects: export growth had dived from a recent annual average of 25-30 percent to zero; remittances passing through the banking system had decreased precipitously with an attendant reduction in foreign exchange; and bilateral development assistance had decreased significantly, particularly from the EU and more particularly from Ireland.

¶4. (SBU) Minister Sufian volunteered that the IMF's response to Ethiopia's difficulty had been "unprecedented" as the fund immediately provided \$250 million to rehabilitate reserves, adding that the "quality of technical advice provided by the IMF was wonderful." He said Ethiopia continues to benefit from the IMF's "exogenous shock" facilities under which further funds are expected to arrive in Addis Ababa in coming weeks. The minister also praised recent African Development Bank efforts to foster accountability in African banks.

¶5. (SBU) The World Bank, however, did not fair so well in Sufian's assessment. He said the bank "should have played a prominent role but did not." He sees the bank as hindering its own ability to foster development in Africa by application of pointless rules like the one mandating that "regional" projects eligible for World Bank funds must involve at least three countries. He complained that potentially worthy Ethiopia-Djibouti and Ethiopia-Kenya development projects have never gotten off the ground as a result, singling out hydropower projects whose fruition he said could have seen Ethiopia taking advantage of its comparative advantage in this area by generating electricity at \$3 per unit and selling it to a neighbor at \$6-7 per unit.

Finance Ministry-Central Bank: Comrades in War Against Inflation ...

¶6. (SBU) Congressman Watt asked National Bank Governor

ADDIS ABAB 00000395 002 OF 002

Teklewold about relations between the bank and Sufian's ministry. Teklewold replied that the bank is operationally independent with its budget approved by a board of directors and not the government's council of ministers. He said Ethiopian law charges the bank with spearheading anti-inflation efforts, particularly by setting annual price index targets, and precludes the GOE from seeking deficit budget financing, absent a parliamentary waiver, unless those targets are met. He candidly added, however, that the bank is not politically independent of the GOE because the prime minister appoints the board of directors and sets their salaries under the Ethiopian Constitution.

¶7. (SBU) Governor Teklewold insisted, however, that Prime Minister Meles Zenawi, the National Bank, and the entire GOE are in full agreement that the poor suffer most from inflation and that getting and keeping inflation under control will remain their collective goal. He said Ethiopia's inflation target for 2010 is eight percent. Minister Sufian said the National Bank is the primary inflation fighter "and I help." He said his ministry has determined to this end to cut nonpriority expenditures notwithstanding inevitable accusations that "the central bank is starving the private sector to reach the targets."

¶8. (SBU) Sufian and Teklewold described the range of tools available to them to curb inflation including a recent currency devaluation (with another expected), quantitative restrictions on credit to control aggregate demand, increases in bank reserve requirements, and currency controls to limit imports. Both said all these tools and more will be employed this year and insisted that Ethiopia's current relative price stability demonstrate that these aggressive interventions are working.

...But More Extreme Measures Not Needed

¶9. (SBU) Congressman Meeks asked whether either official could put to rest rumors that Africa was considering establishment of a single central bank and asked whether Ethiopia and selected neighbors might consider establishment of a single currency. Sufian replied that the single bank idea was a fixture of Libyan President Qadafi tenure as

African Union chief and said he expected the idea likely died when Qadafi left that position earlier this month. The minister did not believe Ethiopia and any subset of its neighbors would develop a single currency because they lacked a strong regional link such as the historical legacy of francophone economies in western Africa.

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